

Paper 15 – Business Strategy and Strategic Cost Management

1. Chawama Enterprises was established twenty-five years ago. The organization was formed to provide mining tools to the mines on the Copperbelt and the neighbouring country of Democratic Republic of Congo. The organization has faced mixed fortunes in its business over the period of its existence. This is directly attributable to external forces faced over its life cycle both at macro and competitive environment levels.

There are times when macro environment has been favourable and times when factors relating to political and economical environment had almost threatened the survival of the organization. During the world credit crunch, fall in copper prices and ever increasing importation prices of tools due to weaker kwacha has once again created acute challenges for the organisation.

In wake of the above background:

- (a) Evaluate how environmental analysis can help Chawama Enterprises deal with the business environment?
- (b) Explain how Chawama Enterprises can use the Five Forces Model to evaluate how competitive the firm is

2. Hassan is one of the India's leading detergent manufacturing companies. The firm has more than twenty-five product types. These have been developed over a period of its ten year existence. Some products are very successful while others have not performed well. The challenge for the board has been the formulation of strategy policy in the way the company manages the portfolio of products.

As a newly recruited qualified Cost Accountant, your advice is being sought to address the following questions the Product manager has prepared as input into his paper to the Board.

- (a) Describe the Boston Consulting Group (BCG) growth vector matrix.
- (b) Explain what strategic options are available to Hassan in accordance to the BCG Matrix.
- (c) Outline what limitations the model poses to the Product Manager as he prepares his paper to the Board

3. Sylva Food Processing company has proposed you as a management consultant. The firm seeks to implement the balanced scorecard tool in an attempt to monitor performance. The management of Sylva has no idea about the balanced scorecard model and has approached you for guidance regarding the approach to implement it and the challenge such a model presents.

- (a) Describe the balanced scorecard.
- (b) Explain the steps that Sylva can take in designing and implementing the balanced scorecard.
- (c) Evaluate why the cost of implementing the balanced scorecard can outweigh the benefits derived from the use of the model.

4. Buyantanshi Ltd. is a Zambian bank that has been conceived by transforming a mutual cooperative foundation into a full fledged bank to offer traditional banking products of account for deposits and loans to the general public. Buyantanshi Ltd. is in direct competition with both local (other Zambian banks) and international banks currently operating in Zambia. As a cooperative fund, (before change of status), Buyantanshi Ltd, operated to satisfy the deposit taking and financing functions for its co-operative members. However, as a private sector bank, offering traditional banking products in a profitable (economical) manner, there is increased

focus on business profitability, balance sheet liquidity and compliance to central bank regulatory requirements.

Buyantanshi (the mutual co-operative fund) employed large numbers of employees, many of whom were relatives of the members of the fund. This sometimes brought laissez-faire attitude towards work. As a result, the chief executive officer of Buyantanshi Ltd., has made repeated calls for cultural change and streamlining of bank operations in order to achieve increased profitability.

(a) Describe the factors that have dictated the culture of Buyantanshi Ltd.

(b) As an Accountant of Buyantanshi Ltd, write a report to the Chief Executive Officer of Buyantanshi Ltd on ways in which he can improve the profitability of the bank.

5. Michael E. Porter has suggested three generic strategies. Briefly explain them. What is the basic objective to follow a generic strategy? In what situations can the three strategies be used? Identify the type of strategy used in the following examples:

(a) Dell Computer has decided to rely exclusively on direct marketing.

(b) "Our basic strategy was to charge a price so low that microcomputer makers couldn't do the software internally for that cheaply."

(c) 'NDTV', a TV Channel has identified a profitable audience niche in the electronic media. it has further exploited that niche through the addition of new channels like 'NDTV Profit and 'Image'.

6. The Gifts Company makes mementos for offering Chief Guests & other Dignitaries at functions. A Customer wants 4 identical pieces of hand-crafted gifts for 4 Dignitaries invited to its function.

For this Product, the Gifts Company estimates the following costs for the 1st Unit of the product:

Particulars	
Direct Variable Costs (excluding labour)	2,000
Direct Labour (20 hours at ` 40 per hour)	800

90% Learning Curve ratio is applicable & 1 labour works for one Customer's order.

1. What is the price per piece to be quoted for this customer if the Targeted Contribution is ` 1,500 per unit?
2. If 4 different labourers made the 4 products simultaneously to ensure faster delivery to the customer, can the price at Question 1 above be quoted? Why?

7. Examples of prices charged per minute by BSNL for long-distance state-to-state telephone calls within the country at different times of the day and week are:

Peak period (8 a.m. to 7 p.m., Monday through Friday)	` 3.0
Evenings (7 p.m. to 11 p.m., Monday through Friday)	2.3
Nights and weekends	1.6

Required:

1. Are there differences in incremental costs per minute to BSNL for telephone calls made during peak hours compared with telephone calls made at other times of the day?
2. Why do you think BSNL charges different prices per minute for telephone calls made during peak hours compared with telephone calls made at other times of the day?

8. Toymaster Ltd. produces a plastic toy car, TGC, in batches. To manufacture a batch of TGCs, Toymaster must set up the machines. Setup costs are batch-level costs. A separate Setup Department is responsible for setting up machines for TGC.

Setup overhead costs consist of some costs that are variable and some that are fixed with respect to the number of setup-hours. The following information pertains to 2013:

	Static-Budget Amounts	Actual Amounts
Units of TGC produced and sold	32,000	23,000
Batch size (number of units per batch)	250	225
Setup-hours per batch	5	5.25
Variable overhead cost per setup-hour	` 250	` 240
Total fixed setup overhead costs	` 1,80,000	` 1,75,350

Required

1. For variable setup overhead costs, compute the efficiency and spending variances. Comment on the results.
2. For fixed setup overhead costs, compute the spending and the production-volume variances. Comment on the results.

9. Amron India produces car seats for children from newborn to 2 years old. The company is worried because one of its competitors has recently come under public scrutiny because of product failure. Historically, Amron's only problem with its car seats was stitching in the straps. The problem can usually be detected and repaired during an internal inspection. The per unit cost of the inspection is ` 45, and the repair cost is ` 12. All 1,00,000 car seats were inspected last year and 5% were found to have problems with the stitching in the straps during the internal inspection. Another 32% of the 1,00,000 car seats had problems with the stitching, but the internal inspection did not discover them. Defective units that were sold and transported to customers needed to be transported back to Amron and repaired. Transporting costs per unit are ` 100, and repair costs are ` 10. However, the out-of-pocket costs (transporting and repair) are not the only costs of defects not discovered in the internal inspection. For 20% of the external failures, negative word of mouth will result in a loss of sales, lowering the following year's sales by ` 5,000 for each of the 20% of units with external failures.

Required:

1. Calculate appraisal cost.
2. Calculate internal failure cost.
3. Calculate out-of-pocket external failure cost.
4. Determine the opportunity cost associated with the external failures.
5. What are the total costs of quality?
6. Amron is concerned with the high up-front cost of inspecting all 1,00,000 units. It is considering an alternative internal inspection plan that will cost only ` 15 per car seat inspected. During the interne inspection, the alternative technique will detect only 2.5% of the 1,00,000 car seats that have stitching problems. The other 4.5% will be detected after the car seats are sold and shipped. What are the tote costs of quality for the alternative technique?
7. What factors other than cost should Amron consider before changing inspection techniques?

10. Motorola manufactures wireless telephones. Motorola is deciding whether to implement a JIT production system, which would require annual tooling costs of ` 17,00,000. Motorola estimates that the following annual benefits would arise from JIT production:

- a. Average inventory would decline by ` 70,00,000, from ` 90,00,000 to ` 20,00,000.
- b. Insurance, space, materials-handling, and setup costs, which currently total ` 20,00,000, would decline by 25%.
- c. The emphasis on quality inherent in JIT systems would reduce rework costs by 20%. Motorola currently incurs ` 35,00,000 on rework.
- d. Better quality would enable Motorola to raise the selling prices of its products by ` 30 per unit.

Motorola sells 30,000 units each year.

Motorola's required rate of return on inventory investment is 14% per year.

Required:

1. Calculate the net benefit or cost to the Motorola from implementing a JIT production system.
2. What other nonfinancial and qualitative factors should Motorola consider before deciding whether it should implement a JIT system?
3. Suppose Motorola implements JIT production, (a) Give examples of performance measures Motorola could use to evaluate and control JIT production, (b) What is the benefit to Motorola of implementing an enterprise resource planning (ERP) system?